



Mr. Ken Siong  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue  
New York, New York 10017  
USA

16 March 2020

Dear Mr. Siong:

### Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, is pleased to comment on the International Ethics Standards Board for Accountants' (the "IESBA" or the "Board") Exposure Draft, Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers (the ED).

The fundamental principles of the International Code of Ethics for Professional Accountants (the "Code") require professional accountants to act in a manner that demonstrates integrity, objectivity, professional competence and due care. While these principles represent behaviors that all professional accountants are expected to exhibit, we believe that the purpose of the engagement quality review, and therefore the objectivity of the engagement quality reviewer (the "EQR"), has a heightened degree of significance in protecting stakeholders' and the public's interests. Therefore, we are supportive of the Board's efforts to address the issue of EQR objectivity holistically in the Code.

Three specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

#### 1. Do you support the proposed guidance addressing the topic of the objectivity of the EQR?

Yes, we support including guidance specifically addressing the topic of the objectivity of the EQR. Because it is a response to an assessed quality risk, the engagement quality review has a heightened degree of significance in protecting stakeholders' and the public's interests. As noted in paragraph seven of the Explanatory Memorandum (the "EM"), many of the respondents to the IAASB's Exposure Draft Proposed International Standards on Quality Management (ISQM) 2, Engagement Quality Reviews (ED-ISQM 2) identified objectivity as critical to an effective engagement quality review. Indeed, an engagement quality review is by definition an objective evaluation. Given this heightened degree of significance of the engagement quality review, and that objectivity is a critical element in performing an engagement quality review, it is appropriate that the Code includes guidance specifically addressing how threats to the fundamental principle of objectivity might arise when a professional accountant is appointed as the EQR.

#### 2. If so, do you support the location of the proposed guidance in Section 120 of the Code?

Yes, we support the location of the proposed guidance in Section 120 of the Code.

3. Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

No. We support including guidance in the Code to explain the application of the conceptual framework when considering the objectivity of the EQR. We also believe that including a cooling-off requirement separately in ISQM 2 would diminish the overall effectiveness of the Board's effort to address EQR objectivity within the Code. Accordingly, we believe that any prescriptive requirement for a cooling-off period should be included in the Code and not in ISQM 2.

Objectivity is a fundamental principle of ethics, and as noted in our response to question one above, it is a critical element to an engagement quality review. In order to comply with the Code's fundamental principles, the professional accountant must identify, evaluate and address threats to the EQR's objectivity, including applying safeguards. And as recognized by the Board in paragraph 16 of the EM, a cooling-off period would serve to protect – or in other words safeguard - the objectivity of the EQR. Therefore, if the proposed guidance is included in the Code and any prescriptive cooling-off requirement is separately included in ISQM 2, the Code will not sufficiently address the application of the conceptual framework when considering the objectivity of the EQR. While we agree that the Code should remain principles-based, we believe that the threats to objectivity created when an accountant serves as an EQR on an engagement after serving as the engagement partner or other engagement team member are sufficiently significant that cooling-off is required. We are concerned that by including cooling-off as only an example of a safeguard in proposed paragraph 120.14 A4, and if a cooling-off requirement is included only in ISQM 2, the Board risks understating the importance of EQR objectivity in the Code. We suggest that the Board coordinate with the IAASB in evaluating what an appropriate cooling-off time period would be. In addition, the Board should make it clear that in the case of a lead audit engagement partner involved in an audit engagement, the completion of a cooling-off period of less than five years before undertaking the EQR role would not result in a fresh, 7-year time-on rotation under the Code's Long Associations requirements in Section 540.

Should the Board decide not to include a prescriptive cooling-off requirement in the Code and this is instead included in ISQM 2, then we suggest that rather than listing a cooling-off period as an example of a safeguard in proposed paragraph 120.14 A4, the Code should include a direct reference to ISQM 2 to explicitly acknowledge that the cooling-off requirement included in ISQM 2 constitutes a safeguard under the Code.

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We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

*Ernst + Young Global Limited*